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GAIN Report Number:

South Africa - Republic of

Sugar Annual

The report focuses on the supply and demand for sugar in South Africa

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Report Highlights:

Growing conditions for sugarcane have improved in most production areas after consistent rains in late 2011. These rains come after the sugar industry endured two of the worst drought-affected production seasons in the past 20 years in South Africa. Hence, post forecasts that for the 2012/13 season, the South African sugarcane crop will increase by a million tons or by six percent to 17.9 MMT. Sugar production for the 2012/13 season is estimated at 2.1 MMT Tell Quell (2.2 MMTRV), 15 percent more than in the 2011/12 season due to a higher sugarcane crop. As a result, sugar exports are expected to almost double to 600,000 MTRV in the 2012/13 season.

Executive Summary:

Good rains over most of the sugarcane producing areas of South Africa have set the foundation for an expected higher crop in the 2012/13 season. Hence, post forecasts that the 2012/13 season (April 2012 to March 2013) sugarcane crop will increase by about a million tons or by six percent to 17.9 MMT. This comes after enduring two of the worst drought-affected production seasons in the past 20 years. The 2011/12 season (April 2011 to March 2012) sugarcane crop was finalized at 16.8MMT, only about five percent higher than the previous season's 16.0MMT.

Sugar production for the 2012/13 season is forecast to be 2.1 MMT Tel Quell (2.2 MMTRV), 15 percent more than the previous season on better climatic conditions. In the 2011/12 season, South Africa produced its lowest sugar crop the past 15 years at 1.8 MMT (1.9 MMTRV) due to the secondary impacts of 2010/11 season's drought.

Sugar exports are expected to increase by 80 percent to 600,000 in the 2012/13, as sugar production significantly rebounds from previous years of low production. Hence, South Africa is expected to deliver on a possible United States tariff rate sugar allocation in the 2012/13 season. Post expects South Africa's sugar exports declined by about 20 percent in 2011/12 season to 330,000 MTRV due to lower domestic sugar production. It is expected that South Africa exported 160,000 MT of raw sugar and 160,000 MT (171,200 MTRV) of refined sugar during the 2011/12 season.

Sources:

<http://www.sasa.org.za>

<http://www.illovo.co.za>

<http://www.hulets.co.za>

<http://www.tsb.co.za>

<http://www.sacanegrowers.co.za>

US\$1=R7.94 (04/10/2012)

Sugarcane

Production

After enduring two of the worst drought-affected production seasons in the past 20 years, the South African sugar industry is expected to benefit from a combination of improved sugarcane climatic growing conditions and a higher international raw sugar price. Good rains over most of the KwaZulu-Natal, where 75 percent of South Africa's sugarcane is produced, were welcomed by cane growers. The rains came at an ideal time as most growers had commenced fertilizer and planting operations for the 2012/13 season, setting the foundation for an expected higher crop in the 2012/13 season. Hence, post forecasts that the 2012/13 season (April 2012 to March 2013) sugarcane crop will increase by about a million tons or by six percent to 17.9 MMT. However, a 17.9 MMT sugarcane crop is still more than 2.5 MMT lower than South Africa's average sugarcane crop for the past 15 years of 20.4 MMT.

In addition to unpredictable weather conditions in recent years, South African sugarcane growers have faced decreased profit margins, uncertainty over land reform, urbanization, high crime levels and infrastructure constraints. These factors have lead to a reduction in area planted to sugarcane since the 1990's. Figure 1 illustrates the trend in sugar production over the past 15 years in South Africa. The sugar area to be harvested in the 2012/13 season is expected to be on the same level as the previous two years at around 280,000 hectares.

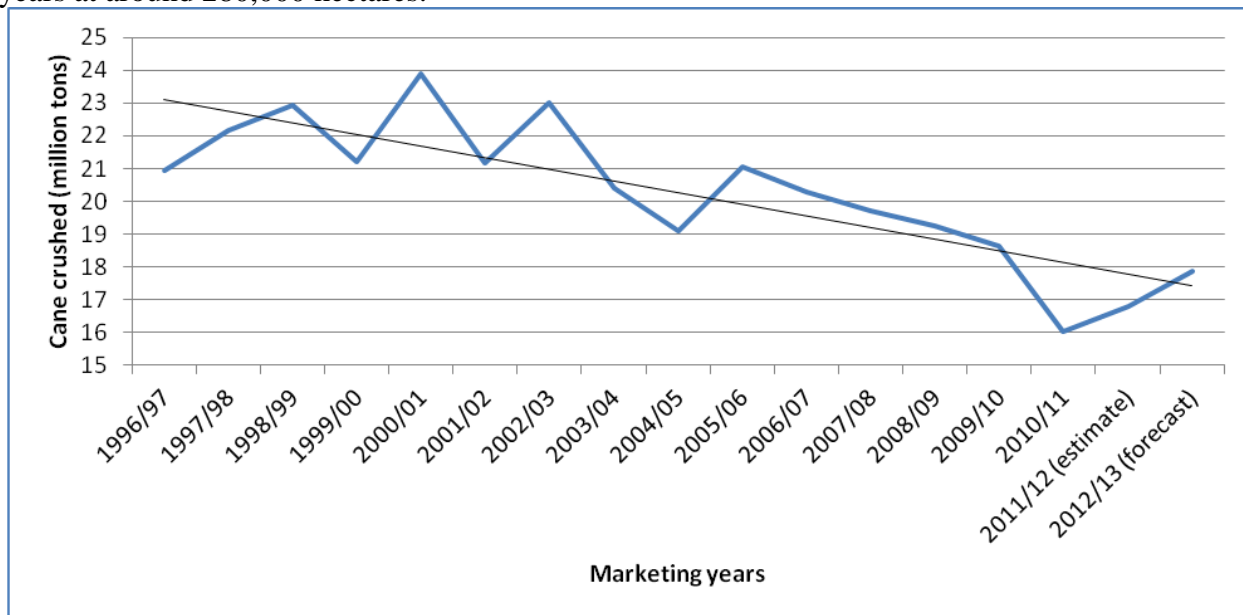


Figure 1: The trend in sugarcane production in South Africa

The 2011/12 season (April 2011 to March 2012) sugarcane crop was finalized at 16.8MMT, only five percent higher than the previous season's 16MMT. Drought and secondary impacts of drought, such as cane root mortality and the forced harvest of young cane, were the major reasons for South Africa having two of the lowest sugarcane production seasons in a row.

For the 2012/13 season, sugar production is estimated at 2.1 MMT Tell Quell (2.2 MMTRV), 15 percent more than in the 2011/12 season on a higher than expected sugarcane crop. The estimated 1.8

MMT Tell Quell (1.9 MMTRV) sugar that was produced in the 2011/12 season is the lowest the past 15 years in South Africa. The relatively high cane-to-sugar ratio of 9.22 for the 2011/12 season illustrates the impact of drought on sugarcane yields. In the 2010/11 season, 1.92 MMT Tell Quell (1.99 MMTRV) sugar was produce. Table 1 illustrates the production of sugar in South Africa for 2010/11 (actual), 2011/12 (estimate) and 2012/13 (forecast) marketing years.

Table 1: The production of sugar in South Africa

Season	Area planted (HA)	Area harvested (HA)	Yield (MT/HA)	Cane crushed (MT)	Sugar production (MT*)	Cane/sugar ratio
2010/11	382,721	279,535	57.3	16,015,649	1,919,116	8.35
2011/12	383,000	280,000	60.0	16,800,000	1,822,000	9.22
2012/13	380,000	280,000	63.8	17,850,000	2,100,000	8.50

*Tel Quell x 1.035 = Raw value, Refined x 1.07 = Raw value

The structure of the sugar industry in South Africa

There are approximately 29,130 registered sugarcane growers in South Africa, covering the provinces of Kwazulu-Natal, Mpumalanga and the Eastern Cape. Of the 29,130 sugarcane growers, more than 27,580 are small-scale growers producing eight percent of the total crop. Large-scale growers (approximately 1,550) produce approximately 85 percent of the total sugarcane crop, while milling companies, with their own sugar estates, produce approximately seven percent of the crop. The bulk of the sugar belt receives sufficient rainfall to grow cane without irrigation; however, parts of northern Kwazulu-Natal and Mpumalanga regions cannot produce cane without irrigation (approximately 30 percent of total production). Cane growers are represented by the South African Cane Growers Association.

There are 14 sugar mills in South Africa. Four mills are each owned by Illovo Sugar Ltd and Tongaat Hulett Sugar Ltd. Three mills are owned by Tsb Sugar RSA Ltd, while Umfolozi Sugar Mill (Pty) Ltd, UCL Company Ltd and Gledhow Sugar Company (Pty) Ltd each own one mill. Only two mills are located in the Mpumalanga province, while the remainders are located in the Kwazulu-Natal province. The sugar millers are represented by the South African Sugar Millers' Association Limited. Four of the mills are known as "white end" mills and produce their own refined sugar. Part of the raw sugar produced by Tsb Sugar RSA Ltd is refined at the Malelane "white end" mill, and the balance is exported via the sugar terminal in Maputo, Mozambique. The raw sugar produced at the remaining mills that is not used by the milling companies for exports of bagged refined sugar or direct consumption raw sugar, is routed to the coastal city of Durban. In Durban it is either refined at the central refinery of Tongaat Hulett Sugar Ltd. or stored at the South African Sugar Association sugar terminal prior to export.

The South African sugar industry is regulated to facilitate the relationship between growers and millers and to protect the industry against international trade-distorting measures. The South African Sugar Association (SASA) is constituted in terms of the Sugar Act (Act 9 of 1978), which provides for the Sugar Industry Agreement to regulate the affairs of the industry. SASA is an autonomous organization and operates free of government control. Due to the interdependence of millers and growers in the sugar industry, SASA has been structured on the basis of a partnership. The South African Cane

Growers' Association and the South African Sugar Millers' Association Ltd are equal partners in the SASA and are represented by equal numbers of members on the Council of SASA, where decisions are reached on a consensus basis (see also Figure 2).

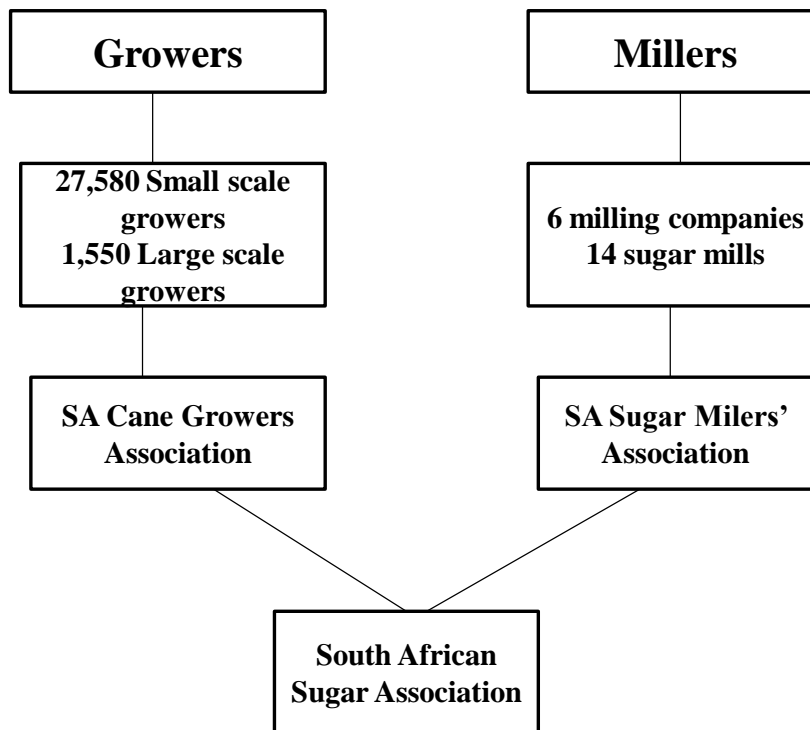


Figure 2: Organization of the South African sugar industry

Cane prices

The South African sugar industry is a net exporter of sugar. In order to distribute exposure to the world market equitably among growers and millers, SASA has implemented a Division of Proceeds. The Division of Proceeds is the formula where revenue that accrues to the sugar industry is allocated to millers and growers under a partnership arrangement. The Sugar Act and the Sugar Industry Agreement provide regulatory support for the Division of Proceeds.

Industry revenues earned from domestic and export sales of sugar and molasses are accounted for by SASA. After the deduction of administration costs, the net proceeds are shared between growers and millers at a predetermined percentage of net proceeds (see also figure 3). Cane growers are thus paid for their sugarcane according to the quality of the cane delivered to the mill through this revenue sharing arrangement. Cane quality is measured by the Recoverable Value (RV) formula, which estimates the amount of sugar and molasses that can be produced from a delivery of cane. A provisional Recoverable Value (RV) price is declared monthly during the season which is applied to all cane delivered to date. A final RV price for the season is declared in March of each year. The final RV price for sugar in the

2011/12 season was declared at R3,018 per ton, 14 percent higher than the previous season and reflects higher international prices and relative low domestic sugar production. Final RV prices paid the past three years to growers are shown in Table 2.

Table 2: Final Recoverable Value and cane prices

Year (Apl – Mrt)	RV Price (Rand)	Cane Price (Rand)	Average R/\$ Exchange rate
2009/10	2 284.20	284.15	7.80
2010/11	2 572.14	331.55	7.15
2011/12	3 017.51	350.00	7.45

Sugarcane for Centrifugal South Africa	2010/2011		2011/2012		2012/2013	
	Market Year Begin: April 2010		Market Year Begin: April 2011		Market Year Begin: April 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	405	383		383		380
Area Harvested	301	280		280		280
Production	18,670	16,016		16,800		17,850
Total Supply	18,670	16,016		16,800		17,850
Utilization for Sugar	18,670	16,016		16,800		17,850
Utilizatn for Alcohol	0	0		0		0
Total Utilization	18,670	16,016		16,800		17,850
1000 HA, 1000 MT						

Sugar

Production

Sugar production for the 2012/13 season is forecast to be 2.1 MMT Tell Quell (2.2 MMTRV), 15 percent more than the previous season on the back of better climatic conditions. In the 2011/12 season, South Africa produced its lowest sugar crop the past 15 years at 1.8 MMT (1.9 MMTRV) due to the secondary impacts of 2010/11 season's drought.

Consumption

The South African Customs Union (SACU) is the primary market for the South African sugar industry. The SACU market comprises South Africa, Botswana, Lesotho, Namibia and Swaziland. Access to the market is regulated by the Southern African Development Community Sugar Cooperation Agreement. South Africa and Swaziland are the only sugar producers in SACU and together produce in excess of the region's sugar demand, which is estimated at two MMT or 34kg per capita.

The demand for sugar is expected to grow by only two percent in the 2012/13 season. High sugar prices and a slower than expected economic growth rate of only 2.7 percent for South Africa in 2012 are the main reasons for dampening regional demand for sugar. However, the long-term prospects for increased sugar consumption remain good as the South African economy is expected to accelerate by 3.6 percent in 2013 and by 4.2 percent in 2014, led by robust household consumption and stronger

public and private sector investments. It is expected that the South African sugar industry will supply 1.6 MMT and Swaziland about 340,000 MT to the SACU market in the 2012/13 season.

From South Africa's SACU sales, approximately 44 percent is sold to industrial customers, with the balance sold directly to consumers at retail. Approximately 80 percent of sugar sold to customers is refined sugar and the balance brown sugar. For the 2011/12 season, South African sugar sales in the SACU market are expected to increase by three percent to 1.6MMT. Table 3 contains South African sugar sales into the SACU market for the 2010/11 (actual), 2011/12 (estimate) and 2012/13 (forecast) marketing years.

Table 3: South African sales of sugar into the SACU market

MT *	2010/11	2011/12	2012/13
White sugar	1,230,945	1,276,000	1,300,000
Brown sugar	319,132	319,00	330,000
Direct sales	861,273	883,200	910,000
Industrial sales	675,882	701,800	720,000
Total sales	1,550,077	1,595,000	1,630,000
MTRV	1,658,582	1,706,650	1,744,100

*Refined x 1.07 = Raw value

Trade

Sugar exports are expected to increase by 80 percent to 600,000 MT or almost 28 percent of production in the 2012/13 season on increased sugar production. South Africa will be able to deliver on a possible United States tariff rate sugar allocation in the 2012/13 season, and could likely supply more than their allocation if unfilled allocations become redistributed. Post expects South Africa's sugar exports will decline by about 20 percent in 2011/12 season to 330,000 MTRV on the back of lower domestic sugar production. It is expected that South Africa will export 160,000 MT of raw sugar and 160,000 MT (171,200 MTRV) of refined sugar during the 2011/12 season. The 2011/12 sugar exports only represented about 17 percent of total production, whereas the average percentage of production being exported the past ten years was almost 45 percent. Figure 3 illustrates the declining trends in sugar production and exports by the South African sugar industry since the 1997/98 season. However, there is an increasing trend in sugar sales to the SACU market since the 1997/98 season, illustrating the South African sugar industries' competitive advantage in supplying the SACU market with sugar.

Exports and imports for raw sugar and refined sugar for the 2010/11 season and 2011/12 season (April to December) are shown in the trade matrixes below. Japan (30,000 MT raw sugar), Mozambique (22,225 MT raw sugar and 39,536 MT refined sugar) and Angola (20,980 MT raw sugar and 6,315 MT refined sugar) were the major export destinations, outside the SACU market, for South African sugar in the 2011/12 season so far.

Sugar imports are expected to increase by about 10 percent to 220,000 MTRV, due to a decline in production, in the 2011/12 season, which represent almost 12 percent of local production. Sugar imports are mostly from Brazil. Post expects that sugar imports will fall back to the normal six percent

of local production in the 2012/13 season, due to the increase in local sugar production based on more favorable growing conditions..

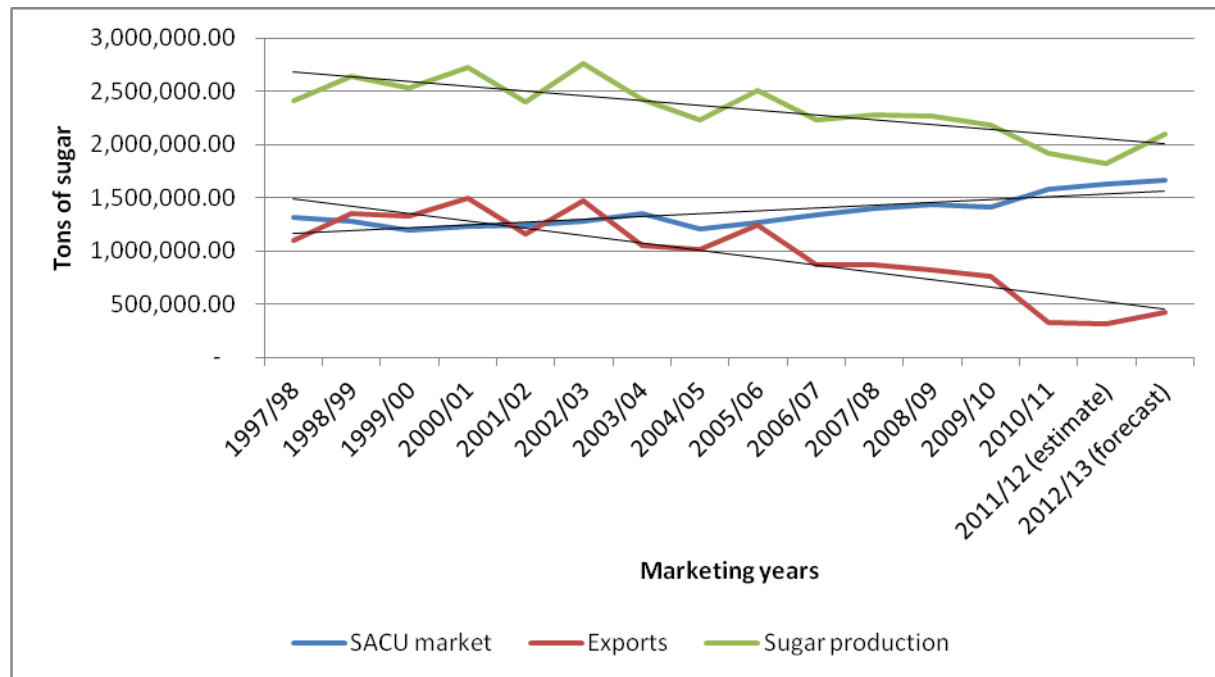


Figure 3: Trends in South Africa's sugar production and sugar sales to the local and export markets

Export Trade

Country	South Africa,			
Commodity	Cane Sugar (HS170111)			
Time Period	My	Units:	Mt	
Exports to:	2010/11		2011/12*	
U.S.	1,848	U.S.	14,565	
Others		Others		
Japan	71,336	Japan	30,000	

Mozambique	38,039	Mozambique	22,225
Zimbabwe	27,980	Angola	20,980
Angola	24,230	Madagascar	8,147
Tanzania	10,710	Zimbabwe	7,661
Madagascar	8,849	Congo	4,114
Sudan	5,313	Sudan	2,317
Kenya	5,060	Kenya	1,036
Total for Others	191,517		96,480
Others not Listed	9,753		1,901
Grand Total	203,118		112,946
*April 2011 to December 2011			

Export Trade

Country	South Africa, Refined sugar** (HS170199)		
Commodity			
Time Period	My	Units:	Mt
Exports to:	2010/2011		2011/2012*
U.S.	0	U.S.	0
Others		Others	
Mozambique	66,887	Mozambique	39,536
Madagascar	28,562	Zimbabwe	17,487
Kenya	19,654	Uganda	14,283
Uganda	17,860	Kenya	11,329
Indonesia	10,403	Madagascar	7,775
Mauritius	10,008	Angola	6,315
Sudan	7,344	Tanzania	6,027
Ghana	8,167	Comoros	2,595
Total for Others	168,885		105,347
Others not Listed	25,811		7,142
Grand Total	194,696		112,498

*April 2011 to December 2011

**Refined x 1.07 = Raw value

Import Trade

Country	South Africa, Cane Sugar (HS170111)		
Commodity			
Time Period	My	Units:	Mt
Imports form:	2010/11		2011/12*
U.S.	0	U.S.	0
Others		Others	
Brazil	49,108	Brazil	50,288

		Thailand	2,000
		Zambia	1,442

Total for Others 49,108 53,730

Others not Listed 317 966

Grand Total 49,425 54,696

*April 2011 to December 2011

Import Trade

Country	South Africa,			
Commodity	Refined sugar** (HS170199)			
Time Period	My	Units:	Mt	
Exports to:	2010/11		2011/12*	
U.S.	0	U.S.	0	
Others		Others		
Brazil	52,621	Brazil	54,682	
United Arab Emirates	2,808	India	1,590	
		United Arab Emirates	938	
Total for Others	55,429		57,210	
Others not Listed	2,568		191	
Grand Total	57,997		57,401	

*April 2011 to December 2011

**Refined x 1.07 = Raw value

Sugar, Centrifugal South Africa	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Apr 2010		Market Year Begin: Apr 2011		Market Year Begin: Apr 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	70	70	200	175		245
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	1,985	1,985	2,000	1,885		2,175
Total Sugar Production	1,985	1,985	2,000	1,885		2,175
Raw Imports	50	50	50	70		50
Refined Imp.(Raw Val)	150	150	100	150		70
Total Imports	200	200	150	220		120
Total Supply	2,255	2,255	2,350	2,280		2,540
Raw Exports	205	205	230	160		300
Refined Exp.(Raw Val)	225	210	250	170		300
Total Exports	430	415	480	330		600
Human Dom. Consumption	1,620	1,660	1,670	1,700		1,740
Other Disappearance	5	5	5	5		5

